Alternative Service Delivery Project

Research Bulletin

Strings Attached:

Non-Profits & Their Funding Relationships With Government

The Canada West Foundation's Alternative Service Delivery Project (ASDP) was initiated to increase understanding of, and stimulate debate about, Canada's non-profit sector, its relations with the state, and its role in the delivery of social services.

Drawing on data collected from 72 non-profit social service agencies from July 1998 to January 1999, this research bulletin explores the interface between the state and the non-profit sectors and discusses the pros and cons of delivering social services on the state's behalf.

The Alternative Service Delivery Project is one of a number of research projects funded by the Kahanoff Foundation, and collectively known as the Non-Profit Sector Research Initiative. The Initiative was established by the Kahanoff Foundation to promote research and scholarship on non-profit sector issues and to broaden the formal body of knowledge on the non-profit sector. The Initiative works to increase understanding of the role that non-profit organizations play in civil society and to inform relevant public policy.

I. Introduction

> ...contracting-out necessarily puts voluntary groups in the service of public purposes. While this is perfectly reasonable from the point of view of the state and its citizens who provide the tax resources for service delivery, it nonetheless can limit the range of activities undertaken by voluntary groups and shape their modes of operation.
>
> – Jennifer Wolch[1]

Governments seeking to reduce costs, enhance efficiency, and provide citizens with evidence of effective social policy often turn to the non-profit sector as a better and/or less expensive means of delivering social services formerly delivered by government agencies.[2] Governments also transfer tax dollars to non-profits to deliver supplemental programs or to help finance causes deemed worthy of public support. Although government funding of non-

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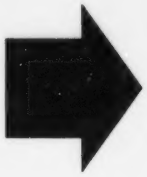
Factors Explaining the Current Focus on the Non-Profit Sector

emphasis on fiscal restraint

lack of confidence in the ability of governments to deliver high quality social services

increased emphasis on the role of communities and the value of civil society



increased interest in the non-profit sector, public accountability, and alternative forms of service delivery

profit social service agencies is a longstanding practice in Canada, three factors have converged to place it in the public policy spotlight: (1) the need to control public spending; (2) dissatisfaction with the state's ability to deliver effective social services (and the popularity of the argument that governments are better at setting policy than at carrying it out); and (3) a general trend in favour of increasing community involvement in social welfare activities.

In 1994, charities classified as social service organizations received $8.8 billion in revenues – 64% of which came from government.

The state has been, and continues to be, a primary source of revenue for the non-profit sector. The charitable sector (a sub-set of non-profits registered as charities with Revenue Canada) received approximately $90 5 billion in revenue in 1994 – 60% of which was provided by governments. Charities classified as social service organizations received $8.8 billion in revenues – 64% of which came from government.[3] These statistics illustrate both the importance of the charitable sector and its dependency on government. The strings attached to the government funding (as well as the actual dollars) are, it follows, likely to have a significant impact on non-profit organizations. Understanding how these strings affect the character of non-profits is important because it suggests ways that relations between the state and non-profit sectors can be improved and, in turn, will help both sectors to recognize and preserve the service delivery advantages and positive social by-products associated with the non-profit sector.

Non-profit organizations that seek or receive government funding operate in an environment marked by competition for finite resources, evolving public policy, periodic turnover of elected officials, government restructuring, and differences within and across government departments and jurisdictions. Despite the complexity of government funding arrangements and the heterogeneity of the non-profit sector, a number of generalizations about the funding relationships between governments and non-profit social service organizations are outlined in this bulletin. Based on a survey of the executive directors of 72 non-profit social service agencies operating in five provinces, these generalizations illustrate some of the challenges faced by non-profit agencies that deliver social services on the state's behalf and point to ways that relations between the two sectors can be improved.[4]

Questions asked during the survey relevant to this research bulletin include:

- What is required to secure a government contract?
- What conditions are attached to the government funding your organization receives?
- How do these conditions affect your organization?
- What do you perceive to be the main issues arising out of the relationship between governments and non-profit social service organizations?

The survey allowed participants to comment on their organization's funding arrangements with the provincial government department responsible for social services. The results illustrate how non-profit social service agencies perceive their relationship with provincial social service ministries and provide a general sense of the pros and cons of taking on government contracts.

II. Some Context

Relations between the state and non-profit sectors have evolved in an ad hoc rather than systematic fashion with different governments pursuing different approaches at different times.

Non-profit social service agencies have a long and venerable history in Canada. Early private charity organizations in pre-Confederation Canada were often religious or ethnic in origin, and were established to address needs left unmet by families, neighbours, and the state. Over time, government grants and contracts were used to assist private charity organizations to meet the needs of citizens, and charities came to accept government monitoring and regulations in exchange for the monies they received.[5] Legislation defines the social services for which a government deems itself responsible. These services are typically referred to as statutory, mandated, or government services. Once a government assumes responsibility for a social service, the government decides if it will deliver the service itself or hire a non- or for-profit provider. Governments also provide social service agencies with funding for services that are either non-statutory or a supplement to statutory services.

These arrangements create complex relationships between Canada's governments and non-profit social service organizations as non-profits deliver services on behalf of the state, fill gaps left by the state, and respond to emerging social needs. It is important to note that relations between the two sectors have evolved in an ad hoc rather than systematic fashion with different governments pursuing different approaches at different times.

As government downloading of social services has gained momentum in Canada, two trends have developed:

Sources of Non-Profit Revenue/Support

- *individuals or corporations (includes in-kind donations, cash, and volunteers)*
- *private granting foundations (e.g., Max Bell Foundation, Donner Canadian Foundation)*
- *savings incurred through tax exemptions*
- *fundraising efforts (e.g., charity auctions)*
- *charitable gaming (e.g., raffles, bingos, casinos)*
- *government gaming grants (Alberta, Ontario, Saskatchewan)*
- *local United Ways*
- *membership fees*
- *fee-for-service*
- *municipal, provincial, and federal governments (grants and contracts)*

"We create a program and send our ideas to the Ministry. Then we are told that there is no funding. Years later the Ministry comes out with the same 'new' program. So we have to rewrite our old proposal to match it in order to get funding. This shows the lack of recognition of our innovation and that we are not taken seriously. If the government had accepted what we originally proposed it would have been a great example of something that came from the community."

– Survey Respondent

(1) non-profit agencies are taking on additional responsibilities as they manage more programs on behalf of government and attempt to serve expanding and increasingly diverse populations; and

(2) elected officials and government departments are placing greater emphasis on holding non-profit social service organizations accountable as a means of enhancing their control over service providers and of improving program evaluation and policy planning.

Two schools of thought exist regarding the impact of government contracting on the character of non-profit agencies. First, there are those who claim that government exerts a controlling influence that has caused a distortion of the original mission and role of non-profit organizations. Hence, non-profits that receive government funding experience a loss of autonomy and distinctiveness, and become "quasi-government" agencies that deliver services according to government specifications. Others contend that the loss of autonomy, and the professionalization and bureaucratization of the sector are exaggerated, and that the contracting process is characterized by mutual dependence.[6]

Salamon argues that the relationship between the state and non-profit sectors is best described in terms of a mutually beneficial partnership: government exploits the comparative advantages of non-profits (e.g., flexibility, cost effectiveness, volunteers) and non-profits benefit from financial support.[7] In keeping with this, many non-profits believe that accepting

government funding is a ***tradeoff*** between obtaining the funds they need to carry out their missions and limitations on their freedom of action. This raises a core question: is it possible to strike a balance between the state's legitimate interest in setting public policy and ensuring that organizations spending public dollars are held accountable, and the need to protect – indeed enhance – the unique qualities that give non-profits a comparative advantage over the state?[8]

Relationships between the state and non-profit sectors raise a second core question: who is responsible for helping people in need of a specific social service? Is it the state, the non-profit sector, a combination of both, or an even wider enterprise involving the for-profit and informal sectors? This question is important because some non-profits argue that the non-profit sector is exploited by governments that are unwilling to pay the full cost of services for which they are responsible, and instead expect non-profits to "do more with less" or make up the difference through their own fundraising efforts. Who is responsible for a particular social service, and how each sector answers this question, goes to the very heart of the relationship between governments and non-profit service providers and points to potential barriers to a fruitful partnership. If one partner sees the government funding as a gift and the other sees it as the responsibility of the state to ensure that certain needs are met, this can lead to tension and misunderstandings that hamper the system's ability to help people in need.

"On one hand there are program standards that need to be met and on the other hand we can't meet program standards effectively with the money that is provided."

– Survey Respondent

The following sections address these questions by examining the contracting process, contract requirements and conditions, and key areas of government influence identified by survey respondents.

III. The Contracting Process

The results of the survey indicate that the contracting process is significantly more complex than an open, competitive bidding system where contracts are awarded to the lowest bidders with the best products. It is not unusual for governments to roll-over contracts because they have established a relationship with an agency or because other service providers do not exist. Governments in Canada have, moreover, tended to prefer funding non-profit organizations to deliver social services rather than open the system up to for-profit competition. As a result, governments interested in ensuring social services are available to citizens tend to rely on non-profit agencies with pre-existing mandates to help people in need. Although typically one-sided (governments "hold most of the cards"), the funding process is perhaps best characterized as a partnership rather than a market-based exchange.[9]

Most agencies included in the survey have an existing contract with the province that is renewed on a regular basis. Although the agency may have originally received the contract through a formal tendering process, the contract is usually renewed if the services are provided

in a satisfactory manner. Services are most likely to be tendered if they are part of a new government program, or if an existing contract is terminated. Changing contractors every year creates two primary problems that lead governments to maintain existing arrangements: (1) it is disruptive to clients; and (2) it is often difficult to find a new agency with similar expertise and reputation.

Formal tendering was not the predominant method for awarding contracts to the agencies surveyed, as many organizations were given a direct offer to provide the service or were informed about new program funding that may become available. However, this situation can vary with changes in the political environment, as was the case in British Columbia when the Ministry of Children and Families implemented competitive re-tendering of contracts.

Core funding or long-term funding that supports primary services (e.g., funding to run programs at a women's shelter or to keep the shelter operating) is usually renewed annually, but the length of the contract can vary. Participants used the term "rolling over" of contracts, which means that the contract (service requirements and budget) remains relatively unchanged year after year. Other contracts support special projects and usually have a limited term, perhaps lasting a few months. For example, special grants or short-term contracts may support new pilot programs, or are used to produce and distribute public education materials.

"When non-profits are small, they can develop procedures and practices around what works. This is preferable to a large bureaucracy that is putting out policies around the province that may not work in a certain area. Because non-profits are small, and the people creating the policies are close to the work being done, they are close to what the issues are – this is the advantage of non-profits."

– Survey Respondent

IV. Contract Complications

Although rolling over contracts does provide executive directors with at least some sense of security and the feeling that they are providing an adequate service, the procurement process is not without complications. These include:

Unrealistic Expectations. Core funding levels do not always match the government's expectations of what can be provided for that cost. Numerous respondents pointed out that insufficient funding typically means that staff are poorly paid and overworked; in this way, governments exploit the social commitment of non-profit agencies and their staff. Several executive directors of emergency shelters for women suggested that the government does not respect the value of the work done by shelter staff (e.g., "We are not seen as professionals and we should get more respect for what we do. The government views us as housewives and, as a result, the salaries we can offer are low; they are inappropriate for what we are doing and the education level of staff."). It was also noted that staff often leave the social service sector for higher paying jobs in other sectors.

Instability and Short-Term Focus. The length of contracts was an extremely important concern expressed by respondents. Many argued that the contracts need to be longer because they do not facilitate the stability needed to deliver high quality services and do

not allow for long-term planning. The renewal of contracts and the tendering process create stress, consume a great deal of resources, and are unnerving for staff. As one director stated, "the government needs to move away from project funding and instead needs to look at the long-term project funding or core funding. We need time to set up the programs. Reporting requirements have become very stringent regarding evaluation, but we are not funded adequately to have the staff to develop and do these kinds of things." Short-term projects eat up resources and create a sense that helping people is a temporary activity that may end at any time.

Insufficient Opportunity to Negotiate. Numerous respondents cited the lack of a formal negotiation process as an area in need of improvement (e.g., "We just go in and sign the contract and keep the same conditions and the same contract."). Another respondent stated that "there is no application process. The contract is rolled over and there has been no negotiation for three years. We just sign the documents since the government always says that there is no money and no money means no changes."

Ideally, during contract negotiation, a non-profit agency works with the funder to clarify the details of the contract. This type of collaboration builds mutual acceptance of the contract conditions especially those pertaining to appropriate statistical measures and outcomes. Often, however, there is little communication on the specifics of the contract. One executive director commented that "there is no collaboration between government and agencies on what kind of reporting should be done. Frustration is created by the government forms, and the government often wants information that is difficult to track or information for things they do not fund." This points to the general lack of communication between the two sectors discussed in more detail in later sections of this report.

"Money is very seldom given in a way that you can do with it what you want – there are always strings attached which makes sense or we would all be driving new Cadillacs."

– Survey Respondent

It is important to note that this is not always the case (e.g., "The renewal of an existing agreement means that changes can be negotiated prior to the contract being signed."). Properly carried out, contract negotiations can create changes to the type of service or program offered or the financial resources required to provide the service.

Excessive Use of Resources. Some respondents reported that applying for funding consumes a great deal of administrative time and redirects resources away from serving clients. Respondents were, however, generally in favour of using the application process to improve services and "to evaluate programs and let the government know where resources are needed."

Influence of Personal Relationships. The application process often depends on the personal relationships that develop when non-profit and government staff interact. A government contract specialist, government liaison, or regional representative may work

with non-profit agencies on their funding applications, answer questions, or even expedite the process. Problems are created when the personal relationships break down. One director noted that the agency "had the same contract manager for several years, but when he left, we were back to doing line-by-line budgeting. Trust and personality issues are important in the contract process."

V. Contract Requirements

Accountability is an obligation to explain how a responsibility for an assigned task has been carried out. Assessing whether or not a service provider has met the conditions outlined in a contract is one of the main mechanisms by which the state ensures an appropriate level of public accountability.[10] Most survey respondents found the conditions imposed by their contracts with the provincial government to be appropriate. The following comments illustrate this point: "At an absolute minimum we need some written conditions." "We should have provincial standards for shelters since we need to have a high quality service and the government needs to be accountable." "If non-profits are not run properly, they may be using the money inappropriately, so accountability measures are needed."

"I don't think that we could deliver the services to extremely disadvantaged people without government money. We can't run on a fee-for-service private practice model and we can't expect private business to deliver the service. We are beholden to the government for the money, like it or not."

– Survey Respondent

Accountability requirements specified in government contracts can be divided into two general categories: administrative and programmatic. Survey respondents were asked to describe the conditions attached to the funding they receive from their provincial social service department. The following comments, although by no means exhaustive, represent the range of conditions attached to the contracts.

Administrative Conditions. Administrative or procedural accountability refers to the process governing the contractual relationship and includes the terms of the procurement process, requirements for audits and fiscal standards, and compliance with provincial standards or laws. The government must determine if the taxpayer has received an adequate return for the money provided. Examples provided by respondents of the methods the state uses to make this determination include: statistical reports; external evaluations; performance targets and forecasts for services; provincial program standards; audited financial statements; and financial reports.

Financial requirements are perhaps the strictest type of contractual condition. Budgetary and accounting practices are formalized and financial audits are a standard practice. Frustration was expressed by respondents because governments do not usually allow agencies to move surplus revenue from one budget area to another. This reduces service flexibility and prevents agencies from reacting to changes that they are aware of from their vantage point within the community. The need for a strict accounting of monies spent and the desire to exert central control over service providers exist in tension with the goal of

using the flexibility and community orientation of non-profit organizations.

Programmatic Conditions. Programmatic requirements relate to the specific service or services an agency is contractually obligated to provide. Eligibility requirements, service delivery methods and procedures, and staff qualifications are examples of programmatic requirements. The key question is whether or not the service provider has delivered the service described in the contract. A government may, for example, set the maximum number of days a woman in crisis can stay in a shelter or provide funding for a program that requires clients to be children under 14 years of age. Given the number and variety of conditions described by respondents, government involvement in the day-to-day operations of non-profit service providers is relatively high.

As is the case with administrative conditions, respondents indicated that they respect the need for programmatic conditions and the state's interest in setting them, but feel that more flexibility is necessary and would appreciate greater input into the process whereby conditions are set.

VI. Effects of Contractual Arrangements on Non-Profits

"A lot of agencies have become creatures of government."

– Survey Respondent

Despite a great deal of variation among individual cases, a significant number of respondents felt that the conditions imposed by the provincial government were unnecessarily onerous and reduced their organization's flexibility, freedom to innovate, and ability to respond to the unique needs of the community it serves.

Participating agencies were asked to comment on the effects that contractual conditions have on their agencies. Responses tended to fall into four categories: (1) dependency and accountability; (2) the positive characteristics of non-profit agencies; (3) autonomy; and (4) benefits of conditions.

Dependency and Accountability. According to respondents, the regulations, rules, and financial accountability requirements imposed by the state have become more stringent. As a result, the state is more involved in the day-to-day operations of non-profit service providers. Respondents strongly supported the need to be accountable, but also expressed a great deal of frustration with the one-sided nature of the accountability regime; governments tend to set the accountability requirements without seeking the input of the non-profits that have to live up to them. Many respondents also felt constrained because of the degree to which they depend on government for funding. As one respondent stated, "non-profits feel less secure because government is controlling more of the money." This can place many non-profit agencies in a difficult position and increases the sense that the relationship is one-sided since, "with the stroke of a pen, [the funding] can be gone." "At

one point our agency was trying to decide whether or not we would adopt the government recommendations. The government position about this was point blank: 'we pay for this service and, if you cannot deliver it [the way we want,] then we will purchase it somewhere else'."

A common theme among the comments is that "black and white" conditions that leave little room for interpretation or innovation are not the best way to ensure that service providers are accountable and achieving the state's policy objectives. When the state exerts too much control, both partners suffer; non-profits lose some of their independence and the state is not able to take advantage of the qualities that are supposed to differentiate non-profits from the state such as flexibility and community responsiveness. In the face of government control, respondents indicated that they *struggle* to maintain their non-profit identity. Although it appears that the non-profits included in the survey have been able to maintain their unique qualities so far, there is a real danger that the need for funding may force them to give up some of their unique qualities in order to survive.

Respondents stressed that one size does not fit all, and that agencies should not be lumped together as if they are all the same.

Respondents were apprehensive that the state remains preoccupied with fiscal accountability and reporting the number of clients served despite government rhetoric to the contrary. In theory, governments are placing greater emphasis on outcomes rather than counting dollars and clients, but respondents indicated that this is often not the case. For example, the director of a children's agency said that, "ten years ago they introduced [reform] and it had good intentions as it would be less budget-oriented and use outcomes to describe services. However, this was a failure. Area offices were not able to make good use of the information. It became a tedious process and became a budget process." Another respondent notes that the "focus is moving toward occupancy rates. It will be difficult because the rural numbers are not as high as the numbers being served in urban shelters. It may be difficult to meet the criteria if the government decides to apply the same standard across the province."

The emphasis on standardization noted by some respondents undermines the ability of non-profits to focus on local needs and circumstances. Respondents stressed that one size does not fit all, and that agencies should not be lumped together as if they are all the same.

The Positive Characteristics of Non-Profit Agencies. As accountability grows in importance, and conditions become more rigorous, there are marked effects on the positive characteristics that non-profit agencies possess including flexibility, community responsiveness, and their role as advocates for their clients.

Flexibility. Most respondents cited the tendency of contractual obligations to severely limit the flexibility of their organizations as a negative side-effect of

accepting government funding. From the perspective of respondents, governments seem very nervous about allowing non-profits to step outside the rigid confines of government policy and make front-line decisions based on their own assessment of the situation. As a result, organizations are forced to find creative ways to be flexible that do not put their government funding in jeopardy. In this way, the non-profits included in the survey have been able to maintain their flexible nature, but have done so in spite of taking on government contracts rather than with the state's blessing. Respondents made it clear, however, that non-profit service providers should not have free rein to do whatever they want with government funds. On the contrary, they took pains to point out their support for appropriate government guidelines and monitoring. The following statement is typical: "Although we believe in accountability, our flexibility is tightened-up by the contracts."

Community Responsiveness. Intimately linked to the need for funding arrangements that allow for a greater degree of flexibility is the refrain embedded in the survey results that the strings attached to government funding prevent them from responding effectively to community needs. It is, for example, common for the state to require service providers to select clients based on strict guidelines set by a distant government department: "We were forced to establish waiting lists according to the government definition, e.g., 'these individuals are not as high a priority as those individuals'." The result of this and similar limitations is loss of the local control that is one of the key factors enabling non-profits to be effective service providers. Respondents noted the need for a greater degree of trust on the part of the state and the value of moving beyond using non-profits to deliver "government services" and allow them the freedom to tailor services to the unique needs of their clients and communities (e.g., "They [the government] don't give local communities control over what would work in their community.").

The strings attached to government funding sometimes reduce the ability of agencies to respond to emerging community needs.

Advocacy. Contractual obligations also affect an organization's advocacy efforts. A number of the women's shelters that took part in the survey, for example, are passionate about political campaigning, but their executive directors felt that government funding arrangements limited this activity. One director illustrated this point by stating that "once government funding is accepted, an organization can lose its political edge and this would mean that other people have to work for political change.... It is almost odd to take government funding and expect to be able to [remain politically active]." This raises a number of key questions: If non-profits lose their freedom to advocate on behalf of their clients and communities, what does this mean in terms of their role in society and the health of a pluralist democracy? Should non-profits have to refrain from advocacy simply because they accept government funds? How do governments ensure that public funding intended to pay for services is not used to advance particularistic causes?

Autonomy. Autonomy allows non-profit organizations to act on their positive characteristics, including being innovative, flexible, and responsive. It also enables them to maintain an independent identity and avoid becoming absorbed into the state. Respondents repeatedly stressed the importance of autonomy and the fear of becoming too reliant on government funding: "It would feel like the government owned us if all of our funding came from them." "We still think we are a little bit too dependent on government funding...however, we don't feel it has hampered us a great deal. We still like our autonomy and having some independence and to try and provide a leadership role. Being tied to government funding does not fit with our mindset." Overall, and notwithstanding significant frustration with the degree of control exerted by the state, survey participants reported that their funding arrangements with government leave them with a fair degree of autonomy. Over 80% of the agencies reported that they have a significant amount of autonomy. They are not, in other words, mere agents of the state, but remain distinct entities. Nonetheless, *9% of the agencies reported having very little autonomy and 3% reported having no autonomy at all.*

Benefits of Government Conditions. Contractual conditions can also have a positive impact on non-profit social service agencies. The following comments are typical: "Conditions have a positive impact since they give us good feedback and suggestions, and help to create an effective and efficient service." "The program standards are quite comprehensive, but not really a bad thing. Overall, they are quite good and ensure a certain amount of standardization between shelters." Respondents stressed the need for a relationship with government in which both sides take part in the development of conditions, standards, and accountability mechanisms (e.g., "The government needs to continue to set standards of service, promote collaboration and communication, provide staff training, maintain regular contact, and act as a liaison.").

It is important to note that the strings attached to government funding can also have positive effects on non-profits.

VII. Maintaining a Healthy Relationship

The overall government-non-profit working relationship is determined by the tone set during contract negotiations, the length of time that the contract has been in place, and the degree and nature of the personal interaction among government personnel and non-profit staff. Respondents cited good communication and a high level of interaction between the two sectors as critical elements of a fruitful relationship.

Government staff perform a variety of fundamental roles including negotiating contracts, answering questions, articulating government policy, announcing new programs, and monitoring and assessing programs. Agencies that have a good relationship with government staff stressed the value of the relationship; agencies with a bad relationship or an insufficient level of contact stressed the need for improved relations and/or more interaction (e.g., "We

requested a meeting with the contract specialist in July and they are not coming until October – this needs to be improved and they need to show more support for the organization."). Numerous respondents reported that they have a good relationship with the government staff assigned to work with their agency but lamented the lack of authority possessed by local government contacts (e.g., "The local representatives are good, involved, and caring [individuals]…but they have no power over the money.").

Respondents noted the value of government staff that are trained to work with non-profit organizations and understand the environment in which non-profits operate and the pressures they face. The following comment illustrates this general concern: "There is a need to establish reliable and consistent senior representatives to work with [agencies]. Also, they should be training them to work with non-profits and they need adequate skills suited to the realities non-profits have to deal with such as budgeting, administration, and labour relations." The importance of ongoing communication was also stressed and a number of problems were linked to a lack of discourse with the government (e.g., "[Government] could have more discussions with us since there is a lack of communication about issues and sometimes their expectations are unclear.").

Finding time to meet, keeping each other informed, and articulating clear expectations are crucial to the establishment and maintenance of a healthy government and non-profit sector relationship. There is some tension evident in the position of respondents, however, created by a simultaneous desire to have a close relationship with government and a relatively hands-off relationship that allows the agency a fair degree of autonomy.

The state must respect the autonomy of its non-profit partners and work with them rather than adopt a command and control approach.

How to strike a balance between these two scenarios is an issue of central importance to the future health of Canada's system of social services. The state must want to be involved and expend the resources necessary to ensure that it is. Non-profit organizations must be open to this involvement and, given, the results of this survey, it appears that they are. The results also indicate that there is some apprehension about state interference in the operations of non-profits. For this reason, and as a means of ensuring that non-profits remain a meaningful alternative to the state rather than mere producers of government services, governments must respect the autonomy of their non-profit partners and work with them rather than adopt a command and control approach.

VIII. Concluding Remarks

Although the survey used as the basis of this report is far from the final word, it points to a number of factors that directly affect the health of the relationship between governments and the non-profits they fund. Understanding these factors will help policymakers to minimize the degree to which taking on government contracts alters the unique characteristics of non-profit agencies.

As a group, respondents have been successful at maintaining a non-profit ethos in the face of government funding: they use volunteers; they find ways to be flexible and respond to the unique needs of the communities they serve; they try innovative methods of service delivery; and they put their clients first. There is a strong sense among respondents that non-profits have something unique to offer and that this differentiates them from both the state and the for-profit sector. At the same time, there is an underlying fear that government will, if it seeks to exert more control over the agencies it funds, limit the expression of the sector's unique traits.

It is also important to note that, although the survey results cannot be used as evidence of broader trends within the non-profit sector, a small but significant portion of the sample reported that their funding arrangements with the state leave them with no autonomy. If non-profits have something to offer to the delivery of social services and a vibrant civil society, this situation bodes ill and should be carefully monitored. Respondents are concerned that if the state is not held at bay, it will overrun the sector and transform it into a shadow state.

Nonetheless, the results also indicate that the partnership works well for many non-profits. These examples can, in turn, be used as templates of healthy relations between the two sectors. Although more research is required, the findings suggest that successful partnerships are marked by:

Two-way communication was identified as a critical element of a healthy relationship between the state and non-profit sectors.

- ongoing and two-way communication;
- a balance between the state's interests in setting policy and ensuring accountability and the value of allowing non-profits the freedom they need to realize their comparative advantages and maintain their independence;
- a straight-forward and consistent tendering process;
- recognition of, and empathy for, the needs of non-profit social service agencies; and
- a clear sense that both partners are "in this together" and committed to helping people in need.

There is no reason to assume that a tighter partnership between the state and non-profit sector must lead to the erosion of the non-profit sector's independence and its metamorphosis into a mirror image of the governments that fund it. First, the state has, or should have, no interest in undermining the qualities that make the non-profit sector unique

for it is these qualities that make it an attractive alternative to state delivery in the first place. Second, the survey results suggest that non-profit social service organizations have a strong sense of their identity and have been actively defending their independence even as they have found it necessary to accept a more intimate relationship with the state. Third, there are numerous examples of good relations between the two sectors. Also of importance is the willingness expressed by respondents to accept direction from the state, strive to be accountable, and work with the state toward common goals.

It is important to note that many non-profit social service organizations do not have the option of turning down government funding. The state is often the only source of adequate funding or organizations find it difficult to turn down money that can be used to help people in need. As a result, government is often "in the driver's seat" simply because it has the money non-profits need. This places an additional burden on the state to make sure that it does not unduly restrict non-profits and allows them – within the limits set by public accountability – to be themselves and do what they do best. This is not an easy task given the complexity of the social service system. Governments need to become better managers and remind themselves why they are using non-profits in the first place. There is also the difficult task of working out the philosophy behind the contemporary welfare state; in short, who is responsible for meeting social needs?

Although the results of this survey indicate that non-profits have been able to maintain their non-profit character, they have had to struggle to do so.

Notes

1. Jennifer R. Wolch, *The Shadow State: Government and Voluntary Sector in Transition.* New York: The Foundation Center, 1990, page 216.

2. Also known as voluntary or third sector organizations, non-profits are defined in *The Social Work Dictionary* as organizations "established to fulfill some social purpose other than monetary reward to financial backers" (Barker, Robert L., Third Edition. Washington, DC: National Association of Social Workers, 1996). The non-profit sector includes, for example, professional associations, arts groups, churches, research institutes, homeless shelters, and trade unions. The ASDP is concerned with the sub-set of non-profits that deliver social services, often called *social service or social welfare agencies.* For the purposes of this and other ASDP research bulletins, hospitals and universities are not considered social service agencies.

3. Michael Hall and Laura Macpherson, "A Provincial Portrait of Canada's Charities." *Canadian Centre for Philanthropy Research Bulletin,* Spring/Summer, 1997. The percentage of revenues supplied by government averaged 81% for survey participants. This is explained in part by the fact that the survey excluded agencies that receive no government funding at all. Nine in ten agencies (91%) receive half or more of their revenues from government. A small number (7.1%) receive all of their revenues from government. The agencies that provided financial information (n=56) received an average of $1.3 million from government in 1997.

4. As part of the Alternative Service Delivery Project, a survey of non-profit organizations was conducted in two social service areas (services for children and youth and services for women in crisis) and five provinces (B.C., Alberta, Saskatchewan, Manitoba, and Ontario). For a detailed account of the survey methodology see Susan McFarlane and Robert Roach, *Making a Difference: Volunteers and Non-Profits,*

ASDP Research Bulletin #2. Calgary: Canada West Foundation, 1999. Copies are available from the Canada West Foundation or may be downloaded from the Foundation's web site (www.cwf.ca).

5. Guest, Dennis, *The Emergence of Social Security in Canada*, Second Edition, Revised. Vancouver, UBC Press, 1985, page 13.

6. This argument is outlined in Ralph M. Kramer, "Voluntary Agencies and the Contract Culture: 'Dream or Nightmare?'" in *Social Services Review*, 68:1, March 1994, page 47.

7. Lester Salamon, "Partners in Public Service: The Scope and Theory of Government-Nonprofit Relations" in W.W. Powell (ed.), *The Nonprofit Sector: A Research Handbook*. New Haven: Yale University Press, 1987.

8. See Susan McFarlane and Robert Roach, *Great Expectations: The Ideal Characteristics of Non-Profits*, ASDP Research Bulletin #3. Calgary: Canada West Foundation, 1999. Copies are available from the Canada West Foundation or may be downloaded from the Foundation's web site (www.cwf.ca).

9. The inappropriateness of applying market analogies to government funding of non-profit social service agencies is also highlighted by the fact that the state purchases services on behalf of citizens – it is not the actual consumer of the services it buys.

10. It is an assumption that only the state is concerned with accountability when, in fact, many survey participants noted that they have their own internal procedures or that they are affiliated with provincial or national associations that set operational guidelines and standards. Conditions are tied to the core standards or program standards and the agency's mandate and, in this way, a non-profit seeks internal accountability for the services it provides. As Salamon notes, "pressures for improved agency management, tighter financial control, and use of professionals in service delivery do not, after all, come solely from government." Salamon, "Partners in Public Service," page 115.

Alternative Service Delivery Project Publications

Research Bulletin #1: Introduction to the Project and Recent Policy Trends, December 1998

Government Relations With Religious Non-Profit Social Agencies in Alberta: Public Accountability in a Pluralist Society, January 1999

Research Bulletin #2: Making a Difference: Volunteers and Non-Profits, March 1999

Research Bulletin #3: Great Expectations: The Ideal Characteristics of Non-Profits, June 1999

The Canadian Social Service Policy Landscape: A Roadmap of Recent Initiatives, August 1999

Exploring Alternatives: Government Social Service Policy and Non-Profit Organizations, August 1999

For more information about the Alternative Service Delivery Project, please contact the Foundation's Director of Non-Profit Sector Studies Robert Roach (roach@cwf.ca).

The Alternative Service Delivery Project Logo: The image of a modern windmill symbolizes the project's examination of alternative methods of delivering social services. Just as wind power is an alternative to other sources of energy, the non-profit sector is an alternative to government. The map of the world points to the fact that government funding of non-profits to deliver social services is not unique to Canada, but a common feature of welfare states around the world.